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SENSITIVE
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DEPARTMENT FOR EUR/CE MORE, EB/OMA, INR/EC, TREASURY FOR
ERIC MEYER, JEFF BAKER, LARRY NORTON; COMMERCE FOR SSAVICH

E.O. 12958: N/A
TAGS: EFIN ECON PREL HU
SUBJECT: MASTERCARD, VISA EUROPE, AND BANKS FINED FOR
NON-COMPETITIVE BEHAVIOR

REF: BUDAPEST 591

¶1. (U) On September 24, the Hungarian Competition Authority (GVH) announced a fine of USD 10.4 million against Visa Europe, MasterCard, and several commercial banks for inhibiting competition by charging uniform interchange fees for card transactions. (Note: Interchange fees are fees a merchant bank pays a customer's bank when merchants accept cards using card networks like Visa or Mastercard for purchases. End note).

¶2. (U) The GVH determined that an agreement between Visa Europe, MasterCard and seven financial institutions in 1996 to charge a uniform interchange fee for card transactions limited and distorted competition. The GVH based its determination on the fact that interchange fees of international banking card transactions had been different both before the 1996 agreement and after the agreement was terminated in 2008. According to GVH panel chair Tihamer Toth, "Competition between the two card firms and the card-accepting banks was distorted and limited" as a result of the agreement.

¶3. (U) The GVH fined Visa and MasterCard approximately USD 2.6 million each. The fined commercial banks include Budapest Bank (a GE Money Bank), Hungary's OTP Bank, MKB Bank, CIB Bank, Erste Bank, K&H Bank, and ING Bank. MasterCard, Visa Europe, and several of the banks involved indicated they would appeal the determination when they receive the formal GHV ruling. They maintain that their cooperation was publicly disclosed, and that the Hungarian National Bank (MNB) was not only aware of it, but also provided assistance in reaching the agreement.

¶4. (U) The GVH has broad authority to investigate any case with "a basic effect on competition," regardless of the business sector. In 2008, the Unfair Commercial Practices Act introduced a special division of powers in the financial sector in which cases that have no material effect on competition will come within the competence of the Hungarian Financial Supervisory Authority (HFSA), and those that do will be handled by the GVH. Recently, the Hungarian Financial Supervisory Authority (HFSA) has come under fire for being overly lenient with the financial sector (reftel).

¶5. (SBU) Comment. The GHV is generally seen as an important consumer protection advocate, particularly in reviewing the effect of mergers on competition. The current decision is noteworthy for two reasons - the European Commission has not yet imposed fines for similar kinds of agreements; and the size of the fine, which is among the largest imposed recently by the GVH. Although the GVH indicates that the amount of

the fine is based on the interchange fees received by the banks between 2004 and 2007 and their market share in 1996 and now, the high fines may also be the result of increased government pressure to demonstrate it is tough on the financial sector and non-competitive behavior. End comment.
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